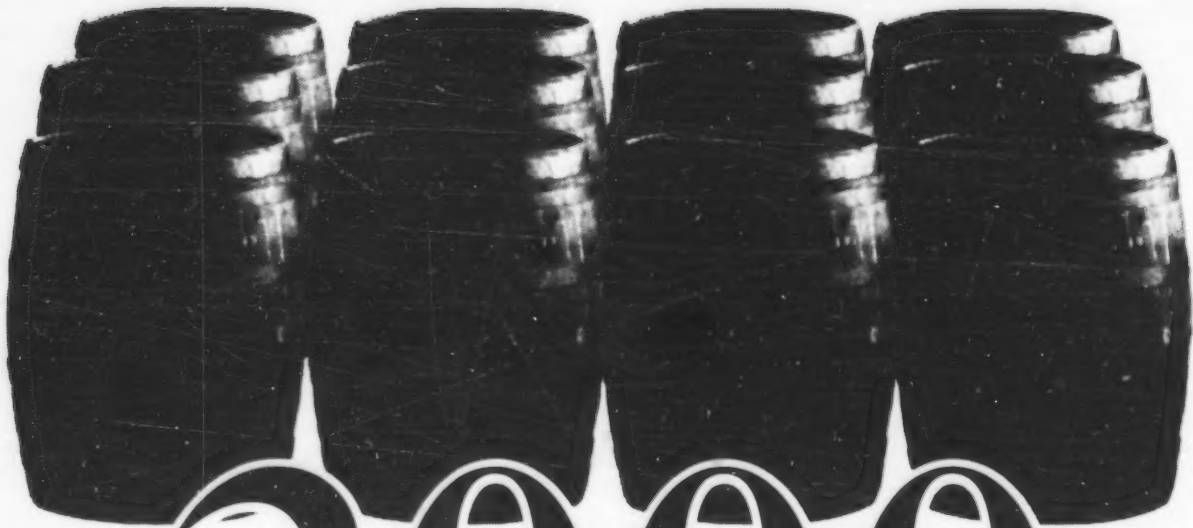


NEWFOUNDLAND
LIQUOR
CORPORATION



2000

ANNUAL REPORT



NEWFOUNDLAND
LIQUOR
CORPORATION

Honourable Lloyd Matthews
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, Newfoundland
A1B 4J6

Dear Mr. Matthews:

I am pleased to submit the 27th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ended March 31, 2000 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

Gerry Glavine,
President.

FINANCE

During the fiscal year ended March 31, 2000, the Corporation realized a net income of \$92,830,162, an increase of \$5,645,386 (6.5%) over the previous year.

Corporation liquor store and agency store operations resulted in sales of \$104,391,202, an increase of \$7,110,921 (7.3%) over the previous year.

Income from beer commissions totalled \$43,959,460, an increase of \$2,219,558 (5.3%) over the previous year. Operating and administrative expenses for 1999-2000 totalled \$17,324,813, an increase of \$1,168,665 (7.2%) over the previous year.

Work continued on the Corporate Year 2000 project throughout 1999. The inventory management and sales applications were implemented in May 1999 while the financial applications were completed in November 1999.

In December a new AS/400 computer was purchased to address Y2K and support issues with our older model, improve system performance, and position us for the future and a Point-of-Sale Scanning System.

Systems technical input was provided in the various phases as required in the preparation of a Request for Proposals for the new POS system.

During the last quarter of this fiscal year, the additional resources that were hired to assist with the Y2K project were able to begin work on the large backlog of small-medium projects that had been on hold due to the critical

deadline of achieving Y2K compliance before January 2000.

STORE OPERATIONS

The main focus of attention for Store Operations during the year was the Point-of-Sale Scanning System Project.

Through a series of workshops, seminars and meetings, the Corporation was able to complete the Needs Assessment Phase. The RFP and vendor selection phases are targeted for completion by the end of 2000, with full implementation of the system expected by the end of 2001.

The success of the Corporation's Gift Theme Store resulted in the decision to continue this operation on a permanent, year-round basis. Plans are underway for the establishment of a second store in another major shopping mall complex in St. John's.

A schedule to oversee major renovations to corporate stores was established. A major focus of these renovations will be to enlarge the retail area in our stores and reduce the amount of warehouse space. This program is expected to take six-seven years to complete.

Sales from the Corporation's on-site store at WineFest '99 increased by 16% over the previous year. Interest from the trade and the general public continues to grow.

New agency outlets opened in the communities of Grey River, Head Bay d'Espoir, Lamaline, Portugal Cove and

Swift Current. Five agency stores changed ownership during the year - Daniel's Harbour, Robert's Arm, Roddickton, St. Alban's and Woody Point. In all cases, competitions were held. The successful applicants in the Daniel's Harbour, Robert's Arm and St. Alban's competitions continue to operate from the same premises used by our former agents. The successful applicants in the Roddickton and Woody Point competitions are operating from new locations. A fire at the Piccadilly agency store resulted in a four-month disruption in service until the agent was able to re-establish business operations.

The ongoing efforts of store management and staff, combined with well-defined control procedures, produced another successful year for the Corporation in loss prevention. Store losses represented .08% of total sales which is well within the established tolerance level.

Training at all levels within the Store Operations Department remains a priority agenda item. Through a framework of in-house seminars, workshops, meetings, post-secondary course offerings and out-sourced training programs and packages, employees are able to develop and improve on the skill sets necessary to ensure that the Corporation continues to function as a modern and efficient retailer of beverage alcohol.



PRODUCT SUPPLY AND WAREHOUSE

The volume of product handled by our warehouse topped 1,162,000 cases in the current fiscal year; 580,000 cases were shipped while 582,000 cases were taken into our warehouse inventory.

Space constraints and the growing number of product listings constantly place pressure on our limited resources. In response, the Corporation is currently in the process of positioning itself to handle the increasing volumes and listings through facility expansion and equipment acquisition and replacement.

The efficiencies that we have recognized to date reflects

the dedication and ability of our warehouse personnel and with their ongoing support the Corporation will continue to better its service to its customers.

BOTTLING PLANT

Operations in our Bottling Plant continue to move in a positive direction with the Corporation bottling sixteen brands for distribution worldwide and production increasing by 11% to 80,000 cases.

The management and staff of the Bottling Plant are currently assessing efficiencies and are reorganizing to handle increasing production demands.

HUMAN RESOURCES

The Human Resources Department played an active role in the POS project over the past year through membership on the Project Team and by leading the Change Team. The latter team has members from all levels of the Corporation and its role is to help facilitate the change process, through communication, advocacy and ensuring that appropriate education and skill training of staff occurs.

The Human Resources Department contributed to the Strategic Planning Process which was focussed on the development of goals, strategies and specific initiatives for the corporate objectives which had been

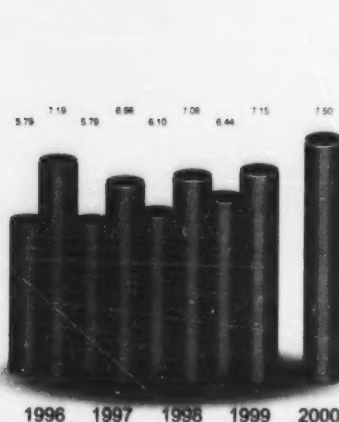
PER CAPITA CONSUMPTION (LITRES)

FISCAL YEAR ENDED MARCH 31, 2000
BY POPULATION 19 YEARS OF AGE AND OVER

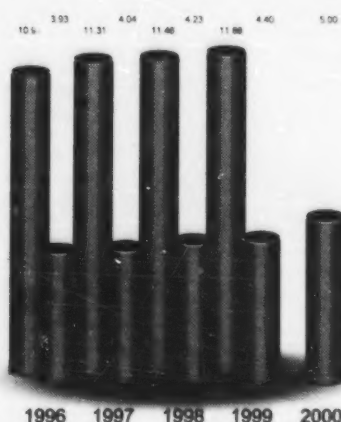
National Average

Provincial Average

SPIRITS



WINE



BEER



identified earlier in the process. The completed Strategic Plan was approved by the Board of Directors late in the fiscal year and is expected to be implemented in the new year once it has been reviewed by the Provincial Government.

The Corporation maintained a positive labour relations environment during the year, with only two new grievances and one carried over from the previous year. These were all resolved without reference to arbitration. The collective agreement signed in July 1998 remained in effect throughout the year and will not expire until March 2001. There was an amendment made to the collective agreement regarding improvements to Labrador Benefits. This amendment was

negotiated by Treasury Board and was implemented for a number of public service collective agreements.

Job competition activity remained high this year due to a number of resignations and retirements. In addition, temporary staffing needs required significant recruitment activity by the Department.

The Human Resources Department continued its emphasis on the assessment of training needs and identifying courses and programs to meet those needs. In conjunction with the Centre for Management Development, a revised supervisory management skills program was delivered to a group of the Assistant Managers from our retail stores as well as to some supervisors from head office. The

remainder of our supervisors were expected to complete this program in the new year.

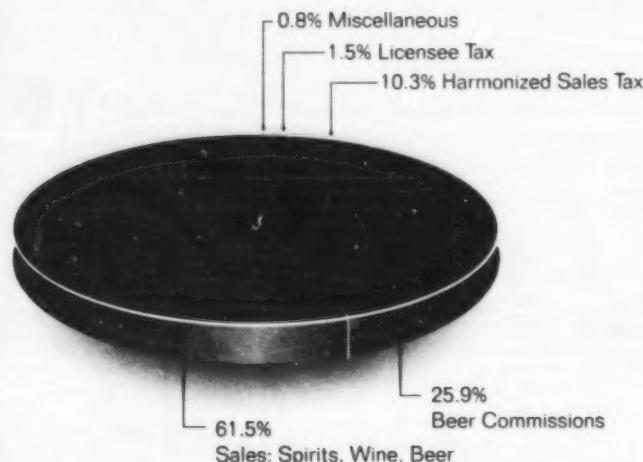
SOCIAL RESPONSIBILITY

The Corporation's objective in the area of Social Responsibility is to partner with community groups and suppliers to raise public and staff awareness of the responsible use of beverage alcohol.

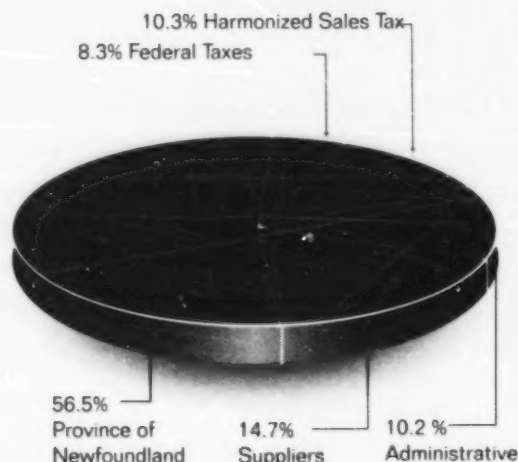
During the past year the Corporation has invested resources in Social Responsibility by partnering with community groups in public awareness programs. The positive response from the community at large had led to the decision for the Corporation to develop and implement an ongoing Social Responsibility Program that outlines the role and

FISCAL YEAR 1999 - 2000

SOURCE OF REVENUE



APPLICATION OF REVENUE





extent of the Corporation's involvement in promoting the responsible use of beverage alcohol. This program is being developed as part of the Corporation's overall Strategic Plan.

Awareness programs were partnered with various interest groups such as MADD (Mothers Against Drunk Driving) and the Red Cross Water Safety Program. The Corporation is also a member of a National Committee of Liquor Jurisdictions to develop and implement a National Campaign on Social Responsibility.

ENFORCEMENT DEPARTMENT

During the fiscal year 1999-2000, 152 Brewer's Agent Licenses were issued, 16 Club Licenses; 79 Lounge Licenses; 30 Restaurant Licenses; 2 Tour Boat Licenses; 4 Tourist Home Licenses; 1 Transportation Services License; 7 Hotel/Motel Licenses; 12 Restaurant/Lounge Licenses; 2 Distributor Licenses; 1 Bonded Warehouse License; 8 Catering Licenses; 9 Recreational Facility Licenses; 1 Military Mess License and 629 Special Event Licenses.

As of March 31, 2000, a total of 1550 Brewer's Agent Licenses were in force; 373 Club Licenses; 665 Lounge Licenses; 304 Restaurant Licenses; 10 Tour Boat Licenses; 25 Tourist Home Licenses; 9 Transportation Services Licenses; 102 Hotel/Motel Licenses; 18

Restaurant/Lounge Licenses; 46 Distributor Licenses; 8 Bonded Warehouse Licenses; 129 Catering Licenses; 9 Recreational Facility Licenses; 14 Military Mess Licenses; 3 Airport Establishment Licenses and 4 Institution Licenses.

During this year the Board was successful in introducing a Recreational Facility License that covers facilities such as stadiums, golf clubs, ski resorts, curling clubs, multi-purpose recreational centres, tennis clubs, arts and culture centres and outfitters facilities. The introduction of this class of license not only provides the owner with considerable flexibility in managing the sale and consumption of alcoholic beverages throughout the entire facility but also removed considerable bureaucracy.

INTERNAL AUDIT

During the year audit procedures were conducted on nineteen NLC branch stores and thirty agency stores according to a plan based on risk assessment and priority.

Audits were conducted on three local breweries in order to scrutinize records which verified the reporting of production and the resulting commission paid to the Corporation.

Financial analysis and credit verifications were completed on the pertinent applications for the several agency store locations for which competitions were held during the

year. Support was provided for agency transfers and timely audit visits scheduled for newly established agencies.

Assistance was given to Store Operations with implementing the optimum control system for the WineFest '99 retail store and a reconciliation was also performed on this endeavor. Miscellaneous projects were completed for various departments.

The External Auditors were assisted with their audit plan, the interim audit and year-end procedures, thus reducing audit time and expense and providing the benefit of Internal Audit's knowledge of the Corporation. Support was also provided with the annual audit of the financial statements.

ACKNOWLEDGEMENT

The Corporation gratefully acknowledges the dedication and cooperation of its workers and the support of former and current members of the Board of Directors.

AUDITORS' REPORT

The Board of Directors,
Newfoundland Liquor Corporation

We have audited the balance sheet of the Newfoundland Liquor Corporation as at March 31, 2000 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

St. John's, Newfoundland,
July 21, 2000.

Deloitte & Touche LLP
Deloitte & Touche LLP
Chartered Accountants

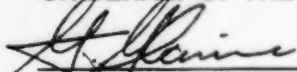


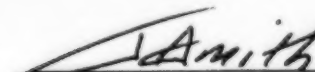
BALANCE SHEET

as at March 31, 2000

	2000	1999
ASSETS		
Current		
Cash	\$ 12,841,401	\$ 16,405,051
Accounts receivable	2,331,938	2,108,815
Beer commissions receivable	4,208,597	4,068,243
Inventories, at cost (Note 2)	20,811,566	19,876,587
Prepaid expenses	362,894	452,820
	40,556,396	42,911,516
Capital assets (Note 3)	3,103,985	3,328,098
Leased assets (Note 4)	105,591	134,850
Intangible assets (Note 5)	182,601	-
	<u>\$ 43,948,573</u>	<u>\$ 46,374,464</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 12,268,988	\$ 11,474,342
Accrued vacation pay	408,487	387,098
Current portion of long term debt (Note 6)	100,000	100,000
	12,777,475	11,961,440
Accrued severance pay	1,717,726	1,689,814
Long term debt (Note 6)	300,000	400,000
	14,795,201	14,051,254
EQUITY		
Retained earnings	29,153,372	32,323,210
	<u>\$ 43,948,573</u>	<u>\$ 46,374,464</u>

ON BEHALF OF THE BOARD:


PRESIDENT


CHAIRMAN OF THE BOARD

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS

for the year ended March 31, 2000

	2000	1999
Balance, beginning of the year	\$ 32,323,210	\$ 25,538,434
Net income for the year	92,830,162	87,184,776
	125,153,372	112,723,210
Payments to the Province of Newfoundland	96,000,000	80,400,000
Balance, end of the year	\$ 29,153,372	\$ 32,323,210

See accompanying notes to financial statements.

STATEMENT OF INCOME

for the year ended March 31, 2000

	2000	1999
Sales	\$ 104,391,202	\$ 97,280,281
Cost of goods sold		
Inventory, beginning of the year	19,876,587	17,865,997
Purchases	43,142,341	41,447,780
Cost of goods available for sale	63,018,928	59,313,777
Less: Inventory, end of the year	20,811,566	19,876,587
	42,207,362	39,437,190
Gross Profit	62,183,840	57,843,091
Commission revenue on sale of beer	43,959,460	41,739,902
Other income		
Commission on licensee purchases	2,585,818	2,453,842
Interest	1,046,897	940,732
Miscellaneous	378,960	363,357
	4,011,675	3,757,931
Income from operations	110,154,975	103,340,924
Administrative and operating expenses (Schedule 1)	17,324,813	16,156,148
Net income for the year	\$ 92,830,162	\$ 87,184,776

See accompanying notes to financial statements.



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for the year ended March 31, 2000

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See accompanying notes to financial statements.



STATEMENT OF CASH FLOWS

for the year ended March 31, 2000

	2000	1999
Operating activities		
Net income for the year	\$ 92,830,162	\$ 87,184,776
Items not requiring cash		
Amortization	564,876	515,091
Gain on disposal of capital assets	(181)	(11,152)
Accrual for severance pay	27,912	166,508
	<u>93,422,769</u>	<u>87,855,223</u>
Net change in non-cash working capital	<u>(392,494)</u>	<u>1,757,851</u>
	<u>93,030,275</u>	<u>89,613,074</u>
Investing activities		
Proceeds on disposal of capital assets	11,170	11,823
Purchase of capital assets	(505,095)	(332,974)
	<u>(493,925)</u>	<u>(321,151)</u>
Financing activities		
Payments to the Province of Newfoundland	(96,000,000)	(80,400,000)
Decrease in long term debt	(100,000)	(200,000)
	<u>(96,100,000)</u>	<u>(80,600,000)</u>
Increase (decrease) in cash for the year	<u>(3,563,650)</u>	<u>8,691,923</u>
Cash, beginning of the year	<u>16,405,051</u>	<u>7,713,128</u>
Cash, end of year	<u>\$ 12,841,401</u>	<u>\$ 16,405,051</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2000

1. Accounting policies

a. Inventories

Inventories are valued at actual landed cost including freight and federal taxes.

b. Capital assets

Capital assets are recorded at cost. Amortization is recorded over the expected useful life of the asset on a straight line basis as follows:

Buildings	20 years
Store equipment and fixtures	5 years
Motor vehicles	3 years
Office furniture and equipment	5 years and 10 years
Plant and warehouse equipment	3 years and 5 years

c. Leased assets

Leased assets are recorded at cost. Amortization is recorded over the terms of the leases on a straight line basis as follows:

Leasehold improvements	1 to 20 years
Leased land	30 years
Equipment	5 1/2 years

Leasehold improvements made to head office premises are expensed in the year incurred.

d. Intangible assets

Intangible assets consist of a trademark which is recorded at cost and amortized on a straight line basis over a five-year period.

e. Severance pay

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. No provision for severance pay liability is made for employees who have less than nine years of continual service.

f. Financial instruments

The Corporation has evaluated fair values of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying value of these financial instruments is considered to approximate fair value.

g. Accounting estimates

The preparation of the Corporation's financial statements in conformity with Canadian



NOTES TO FINANCIAL STATEMENTS

March 31, 2000

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NOTES TO FINANCIAL STATEMENTS

March 31, 2000

generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used when accounting for items and matters such as allowance for uncollectible accounts receivable, inventory obsolescence, amortization, taxes, provisions and contingencies.

2. Inventories

	2000	1999
Head office	\$ 7,577,918	\$ 6,047,288
Branch stores	5,239,195	5,917,954
Stock in transit	4,072,771	4,547,073
Raw materials	983,261	881,996
Finished goods	2,926,136	2,482,276
Work in progress	12,285	-
	<u>\$ 20,811,566</u>	<u>\$ 19,876,587</u>

3. Capital assets

	2000		1999
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Land	\$ 1,136,841	\$ -	\$ 1,136,841
Buildings	4,874,342	3,483,575	1,390,767
Store equipment and fixtures	1,193,387	1,144,618	48,769
Motor vehicles	100,862	68,106	32,756
Office furniture and equipment	1,589,418	1,277,526	311,892
Plant and warehouse equipment	2,391,852	2,208,892	182,960
	<u>\$ 11,286,702</u>	<u>\$ 8,182,717</u>	<u>\$ 3,103,985</u>

4. Leased assets

	2000		1999
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Leased improvements	\$ 4,173,073	\$ 4,157,825	\$ 15,248
Leased land	248,925	158,582	90,343
Equipment	-	-	-
	<u>\$ 4,421,998</u>	<u>\$ 4,316,407</u>	<u>\$ 105,591</u>

NOTES TO FINANCIAL STATEMENTS

March 31, 2000

5. Intangible assets

	2000		1999
	Cost	Accumulated Amortization	Net Book Value
Trademark	\$ 202,800	\$ 20,199	\$ 182,601

6. Long term debt

11 7/20% debenture, issued to Brant Investments and held by National Trust Company Limited, repayable in annual principal instalments of \$100,000

Less: current portion

2000	1999
\$ 400,000	\$ 500,000
100,000	100,000
<u>\$ 300,000</u>	<u>\$ 400,000</u>

These debentures are guaranteed unconditionally, as to principal and interest, by the Province of Newfoundland.

7. Lease commitments

The Corporation has entered into rental leases covering retail outlets. Annual lease obligations for the next five years are as follows:

2001	\$ 790,640
2002	603,127
2003	468,766
2004	213,228
2005	94,737
	<u>\$ 2,170,498</u>

8. Related party transactions

The Corporation is leasing office and warehouse space in St. John's from the Department of Works, Services and Transportation. These leases are rent free; however, all operating and maintenance costs related to the buildings are the responsibility of the Corporation.

9. Pensions

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is \$ 406,868 (1999 - \$379,549).



NOTES TO FINANCIAL STATEMENTS

March 31, 2000

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Buildings	4,874,342	3,483,575	1,390,767	1,603,939
Store equipment and fixtures	1,193,387	1,144,618	48,769	43,357
Motor vehicles	100,862	68,106	32,756	25,992
Office furniture and equipment	1,589,418	1,277,526	311,892	256,379
Plant and warehouse equipment	2,391,852	2,208,892	182,960	261,590
	<u>\$ 11,286,702</u>	<u>\$ 8,182,717</u>	<u>\$ 3,103,985</u>	<u>\$ 3,328,098</u>

4. Leased assets

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Leased improvements	\$ 4,173,073	\$ 4,157,825	\$ 15,248	\$ 35,403
Leased land	248,925	158,582	90,343	98,707
Equipment	-	-	-	740
	<u>\$ 4,421,998</u>	<u>\$ 4,316,407</u>	<u>\$ 105,591</u>	<u>\$ 134,850</u>

NOTES TO FINANCIAL STATEMENTS

March 31, 2000

5. Intangible assets

	<u>2000</u>		<u>1999</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
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Less: current portion

	<u>2000</u>	<u>1999</u>
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SCHEDULE OF ADMINISTRATIVE AND OPERATING EXPENSES

for the year ended March 31, 2000

	<u>2000</u>	<u>1999</u>
Salaries and employee benefits	\$ 9,090,473	\$ 8,772,066
Agency store commission and expenses	3,208,462	2,876,240
Rent	859,169	835,809
Marketing	600,999	453,991
Interest and bank charges	412,831	361,787
Amortization on capital assets	378,387	388,851
Consulting fees	283,537	64,164
Freight to stores	267,602	247,542
Heat and light	234,751	239,590
Repairs and maintenance	214,508	215,341
Stationery and office supplies	175,847	144,050
Cleaning	147,082	153,856
Inventory breakage and shortage	145,772	121,369
Communications	141,768	138,363
Travel	136,057	109,230
Municipal tax	111,580	108,032
Store supplies and wrapping	111,199	107,053
Staff training	110,484	84,385
Security	92,863	116,403
Professional fees	72,305	118,712
Amortization on leased assets	69,336	39,845
Miscellaneous	61,624	38,630
Inventory storage charges	57,292	-
Interest on long term debt	57,233	72,641
Postage	54,253	49,104
Uniforms	48,749	101,429
Insurance	48,386	47,701
Advertising	39,821	41,190
Directors' fees and expenses	38,493	58,191
Dues and subscriptions	27,134	24,427
Motor vehicle expenses	16,524	17,697
Staff recruitment	12,612	18,867
New product development	2,068	-
Gain on disposal of capital assets	(181)	(11,152)
Bad debt expense (recovery)	(4,207)	744
Total	<u>\$ 17,324,813</u>	<u>\$ 16,156,148</u>

BOARD OF DIRECTORS

George Furey
Chairman

Fraser Lush
Director

Bernice Walker
Director

Marilyn Payne
Director

Ronald Simms
Director

Heather Tulk
Director

Richard Small
Director

BOARD OF DIRECTORS

EFFECTIVE MARCH 8, 2000 _____

Jamie Smith
Chairman

Margaret Ayad
Director

Fred Harding
Director

Meta Kennedy
Director

Cecil Lake
Director

Michelle Batterson
Director

Michael Clarke
Director
